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Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

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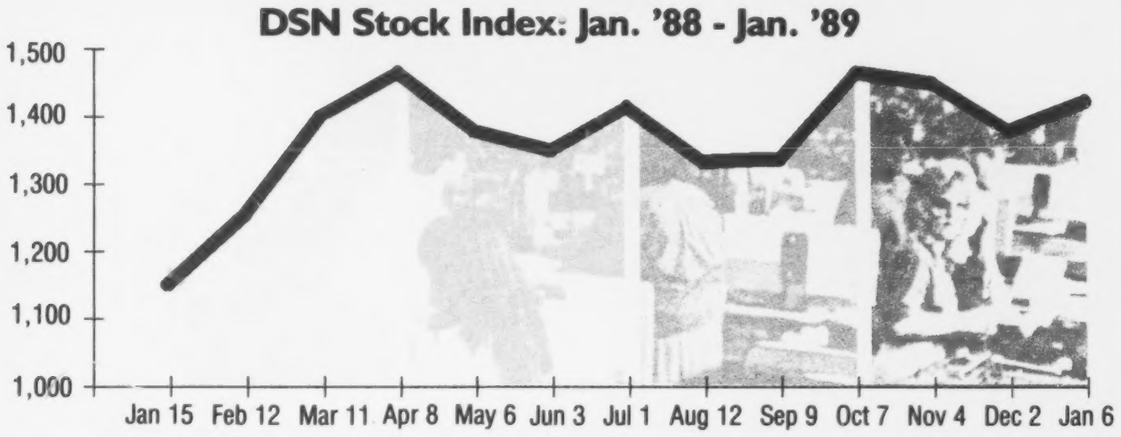
Outlook '89: The Big Squeeze

The Power of Leverage: Takeover Fever Likely to Rise in '89



Index of 59 publicly traded discount retailer stocks.
Source: Nordby International, Boulder, Colo.

By Neil Nordby
Special to DSN

News Analysis

The Greek mathematician Archimedes said, "Give me a lever long enough and a fulcrum strong enough and single-handed I can move the world."

Thousands of years later, Wall Street is heeding these timeless words of wisdom by employing takeovers as the lever and debt as the fulcrum to move the corporate world. As a result, the corporate profiles of many discount retailers were again altered in the fourth quarter of 1988.

1988 was clearly the year of the leveraged buyout due to the availability of billions of dollars in junk bonds. As a result, the stock prices of many retailers have been buoyed by takeover speculation, even though specific take-

(Continued on page 43)

Retailers Face Double Trouble: Higher Inflation, Slower Spending

By Richard C. Halverson
Nationwide DSN Report

Retailers in 1989 must weather a more difficult economic climate than in 1988—which turned out to be a surprisingly sunny year.

Economists tick off a number of factors that will pressure profits in 1989, especially a slowdown in the growth of personal income, which will translate into lesser retail sales gains.

In addition, an increase in the inflation rate threatens the profit margins of retailers, who will find it difficult to pass along expected wholesale price increases. Moreover, the continued shortage of qualified labor will mean higher wage and benefits costs.

Lea Tyler, senior economist for the WEFA Group, economic forecasters in Bala Cynwyd, Pa., emphasized that retailers won't see a "retrenchment in consumer demand, just slower growth."

This will be a year of caution for retailers, said Richard E. Mount, owner of Mount Economic Consulting, Middletown, N.J., and an economic consultant to *DSN*.

> ***'There's no reason for panic, but 1989 won't be as easy a year for retailers as was 1988.'***
>
> —Richard Mount, Mount Economic Consulting

"There's no reason for panic," he said, "but 1989 won't be as easy a year for many retailers as was 1988. Retailers will have to be a little tougher, a little more competitive."

Because higher short-term interest rates will boost the cost of carrying goods, controlling inventories will be the critical issue for retailers, Mount said.

Short term rates will rise throughout 1989, but not as dramatically as they did in '88, Mount predicted. Last year, the prime rate shot to 10½ percent from 5½ percent. Mount predicted the prime will peak at 11 percent.

(Continued on page 5)

Gitano Makes Deal For Children's Place

Haim Dabah

By Kenneth M. Chanko

NEW YORK — On the heels of going public, The Gitano Group has struck a deal to eventually acquire The Children's Place apparel chain.

In a separate agreement, the large apparel supplier to the discount industry purchased rights to the Gloria Vanderbilt trademarks.

In seeking to expand its business among mass merchants, department stores and specialty apparel chains, The Gitano Group paid $15 million in cash to Murjani Worldwide B.V. for the U.S., Canadian and certain other foreign rights to the Vanderbilt trademark.

In a complex deal, the Dabah family, which includes Gitano Group president Haim Dabah, will acquire all of the stock of a newly formed company which has contracted to buy The Children's Place from Federated Holdings Inc. The Gitano Group simultaneously obtains an option, exercisable for up to five years, to purchase the investor group's interest in The Children's Place businesses.

(Continued on page 5)

Brand Names at Everyday Low Prices

Sears Revamps Carpeting Depts.

By Peter Hisey

JERSEY CITY, N.J. — Sears unveiled its first chain-wide attack on its discount competition with the formal showing of its revamped carpeting department in this New York suburb.

"Sears will now carry the largest non-duplicated assortment of branded products in the market," said Ed Gilligan, national manager, floor coverings, adding that these brand names will be sold at an everyday low price.

By year-end, many Sears house brands will be dropped in favor of national brands, and eventually, every department will pursue an everyday low price strategy.

All 726 Sears stores that sell carpet have converted to the new format, which was intro-

(Continued on page 45)

Sears' introduction of national brands and everyday low prices foreshadows tougher competition for discounters.

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MARKETWATCH

Target Eliminates Rebate Coupons

MINNEAPOLIS — Target Stores has eliminated manufacturers' rebate offers at all its 341 stores. According to published reports, the discounter was paying out some $1 million a year to maintain rebate bulletin boards, process complaints, and in some instances, make reimbursement payments directly to customers.

Bizmart Plans to Open 18 Megastores

ARLINGTON, Texas — Bizmart has picked the Irving and Hurst areas of Dallas, the Overland Park suburb of Kansas City and the Olivette area of St. Louis as sites for four of the 18 office supply megastores it plans to open this year. Three other Bizmart's are planned for the Dallas/Fort Worth market this year to give the chain nine there. The expansion from 10 to 28 units will be aided by the $14.1 million in equity financing Bizmart obtained last month.

Wal-Mart to Appeal $11.5M Fine

BENTONVILLE, Ark. — Wal-Mart is expected to appeal a Texas judge's $11.5 million fine that was imposed because chairman Sam Walton refused a court order to testify in a personal injury lawsuit. The plaintiff won the case and received a $36,000 award for back injuries. Wal-Mart's fine accrued for nine days at the rate of $1 million per day before Walton gave up after fighting a six-month battle to avoid having to testify.

K mart Plans to Appeal $73.3M Award

PROVIDENCE, R.I. — K mart plans to appeal a court decision ordering the discounter to pay $73.3 million to a clothing wholesaler. A U.S. District Court jury ruled K mart broke a 1983 contract requiring the discounter to purchase 85 percent of Fashion House's name brand and designer apparel for K mart and now-closed Designer Depot stores. Fashion House charged K mart canceled the contract after the wholesaler filed suit for unpaid commissions. K mart claimed that Fashion House failed to obtain the name brands it wanted, and supplied goods in broken lots, odd sizes and unattractive colors.

Smitty's Taken Off Auction Block

PHOENIX, Ariz. — Smitty's Super Valu has been pulled off the auction block by its parent, Steinberg Inc. of Montreal, Canada, due to unacceptable bids. Steinberg, which didn't disclose the names of any companies bidding on Smitty's, had put the 23-store food and general merchandise chain up for sale in September.

Prodigy Enters Additional Markets

WHITE PLAINS, N.Y. — Add Washington and Baltimore to the list of a dozen markets that this year are due to get PRODIGY, the interactive computer shopping and information service. Prodigy Service Co., a joint venture between IBM and Sears, previously identified New York and Detroit as markets in 1989. This year, Chicago and cities in Ohio, Indiana, Texas and Florida also are likely to get the service.

Goldbro Hopes Jewelry Adds Luster

HUNTSVILLE, Ala. — Goldbro Jewelers has opened an 11,000-square-foot jewelry and giftware specialty showroom in the Madison Square Mall here as part of its plan to focus on jewelry as the key profits and expansion category in the 1990s. Goldbro's first enclosed mall unit—and second unit in Huntsville—sells diamonds, jewelry, watches and such giftware as clocks and flatware. Milton Goldstein, vp, said the store is a prototype for future units that will continue to place a greater emphasis on jewelry.

Saveco Closes Doors of Last Store

RIVERSIDE, Calif. — Saveco is liquidating merchandise and closing the doors of its last store. The membership warehouse, which had operated two stores, filed for Chapter 11 bankruptcy protection last April, and then in an effort to improve sales the company changed its store name to Value Mart and became a deep discount operator in September. The alteration was not successful.

Carrefour Consolidates HQ Location

PHILADELPHIA — Carrefour has closed its U.S. headquarters in Secaucus, N.J., and centralized operations at its hypermarket, opened here last February. Gerard de Ganay, executive director of American operations, resigned in December. Store director Regis Croizet is now carrying out his duties. Denis Defforey, chairman and ceo of Carrefour, Paris, was set at presstime to meet with executives of its American division to decide whether and where to build a second Philadelphia hypermarket.

Grocery Concern Stalks Big Bear; Harts Parent Seeks Higher Offers

By Mary Ellen Kelly

COLUMBUS — Grocery store operator Penn Traffic expects to succeed in its dogged takeover pursuit of Big Bear, parent of Harts discount stores, despite Big Bear's search for higher bids.

If Penn Traffic does acquire Big Bear, Harts has the potential to be developed into a chain of mini-hypermarkets similar to Big Bear Plus, said Gary Hirsch, chairman of Penn Traffic and managing general partner of its New York-based parent, Miller, Tabak, Hirsch & Co.

Penn Traffic last month offered $35 per share, or $315 million, for all outstanding common stock of Big Bear. Penn Traffic currently owns 14.5 percent of Big Bear's outstanding common stock. At presstime, no other bids had been made. Big Bear management deemed this bid "inadequate" and rejected the proposal. No executives from Harts or Big Bear could be reached for comment on the takeover bid.

The performance of Big Bear Plus—four combination food and general merchandise stores opened by Big Bear and Harts last year—could play a role in whether Penn Traffic decides to up its bid. "Big Bear Plus is a trial concept . . . I could envision building more, but I don't know how successful it is," said Hirsch. "It is one of the things we want to find out from the company before deciding how to proceed."

Penn Traffic is based in Johnstown, Pa. It operates 155 supermarkets and distributes food to 300 wholesale and franchise accounts. The stores, which operate under the names P&C, Riverside, Bi-Lo and Quality Markets, are located from Vermont to New York and west to the Ohio border. The Big Bear and Harts stores would be "a natural business extension," according to Hirsch.

(Continued on page 48)

CVN Set to Take Over Teleshopper

MINNEAPOLIS — CVN Cos., a diversified $587 million teleshopper, is poised to take over one of two bankrupt video retailers while it continues to study a "friendly" takeover offer from cable TV powerhouse Tele-Communications Inc.

CVN Cos.' proposed acquisition of America's Shopping Channel—in a joint venture with Cox Cable Communication—and its pending operational takeover of The Fashion Channel are the keys to the Minneapolis firm's strategy of offering cable systems an assortment of differentiated and segmented shopping shows.

ASC is a localized shopping service operating in four markets—San Diego, New Orleans, Tulsa, Okla., and Virginia Beach, Va. Viewers obtain the merchandise they order either by picking it up at a pre-designated ASC "store" in their local market or through home delivery, now being tested in San Diego.

The Fashion Channel, meanwhile, merchandises only clothing and accessories, which customers obtain through the traditional teleshopping method of ordering the item by calling an 800 number for mail delivery.

While CVN Cos. pursues its diversification, its latest response to TCI's acquisition offer (see *DSN*, Nov. 21, 1988, page 3) was to name Donaldson, Lufkin & Jenrette Securities Corp., and FBS Merchants Bank of Minneapolis as advisors to the special CVN Cos. board committee studying the TCI proposal.

The special committee was "conducting an extensive review" of CVN Cos.' business and operations and hoped to meet sometime this month with TCI, a $2 billion multisystem cable operator, which played a major role in mid-

(Continued on page 48)

2 Vice Chairmen Named As TRU's Ricken Retires

PARAMUS, N.J. — Toys "R" Us has abolished the position of president and chief operating officer and split the responsibilities of that post between two newly promoted vice chairmen.

Effective March 15, president and coo Norman Ricken will retire upon expiration of his contract. Taking over are new vice chairmen, Michael Goldstein and Robert C. Nakasone, who were promoted effective Jan. 3, announced TRU chairman and ceo Charles Lazarus. Both join the TRU board as directors. Ricken remains a director.

Goldstein, who had been executive vice president, finance and administration, continues as TRU's chief financial officer. In his new post as vice chairman, chief financial and administrative officer, Goldstein is also responsible for the Kids "R" Us children's clothing division.

Nakasone had been president of TRU's United States toy store division. As vice chairman and president of Worldwide Toy Stores, he takes on responsibilities for the company's International Toy Store Division, as well.

Goldstein joined TRU in 1983, when he left Lerner Stores as its vice president for operations and finance.

Nakasone joined TRU in 1985, leaving the position of group vice president, general manager of the Midwest division of Jewel Food Stores.

Ricken had served TRU for some 20 years, including seven as president and coo.

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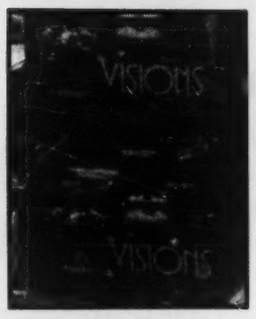

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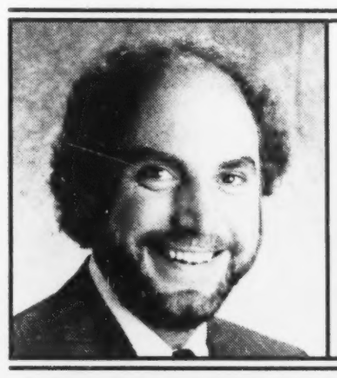
Don't Shy Away from the 'D' Label

What's wrong with being called a discounter?

What is it about the word "discount" that makes some retailers—and some vendors—cringe?

The answer is perception. It's amazing how differently companies in the same industry perceive the business they are in. There are still some retailers and suppliers that think "discount" is a dirty word. Or is it that they believe that the customer has a negative perception of a discounter.

There are discounters that really want to be discounters. There are other types of retailers that wish they were discounters. And, believe it or not, there are still discounters that do not want to be discounters. Furthermore, there are vendors that have developed specific products for discounters. There are vendors who sell to discounters, but somehow convey the impression that they would rather not. And there are vendors who do not sell to discounters, but wish they did.



TONY LISANTI
Editor

Times have changed. The word discount is no longer synonymous with cheap or inferior.

In today's retail environment, discounters are hot. Many of the best and most successful retailers in the country are discounters. And it seems that everyone wants a piece of the discount marketplace.

Why then is it so difficult for some retailers and vendors to accept the "D" word?

There is absolutely no reason why any retailer or vendor should be embarrassed by the discount monicker. Certainly, today's sophisticated customer doesn't care. In fact, today's customer wants value, convenience and quality and the discounter offers all three and much more.

Let's get back to basics. What is a discounter?

After listening to many definitions, I would like to define the word discounter in today's market: A promotional retailer that specializes in merchandising national branded products in a broad range of merchandise categories offered in a limited service format with at everyday low prices and special sale prices that are well below manufacturer suggested retail prices.

Simple. Easy. Accurate.

There are dozens of vendors such as Gitano, Brittania, and Rubbermaid that have grown and prospered as the discount industry has grown and dozens of retailers such as K mart, Wal-Mart, Target and Price Club that have found discounting to be a profitable niche.

The discount marketplace is more sophisticated than ever. As purveyors of national branded commodity merchandise and strong private label products, discounters will continue to grow their share of market and become the consumer's No. 1 shopping choice. Old-fashioned perceptions must change quickly before some retailers and vendors find themselves left out in the cold.

There is no reason to shun the "D" word. In fact, it could be one of your best marketing tools.

BUYERS & SELLERS

Shows Foretell Shortages of Low-End Products

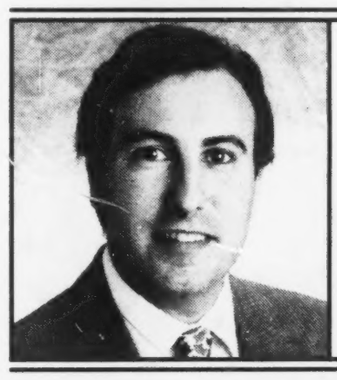
Where are the new low-end products?

A sampling of the new product offerings of consumer electronics manufacturers at this month's winter show in Las Vegas reveals an alarming dearth of new products for the mass market. A weakened U.S. dollar that has bumped sticker prices up by 5 percent to 15 percent on selected products as well as tightened overseas production could result in a shortage of mid- and lower-priced televisions and VCRs by year-end, warn many manufacturers and reps.

In other product categories, the same theme is emerging. Housewares vendors at this month's national show in Chicago are hoping that by unveiling some new motifs and styles they will be able to pass increased costs on to retailers, and presumably, to consumers. In some cases, manufacturers are putting a new face on old products in order to justify the higher ticket. In other instances, the quality of the merchandise is being lowered in order to maintain the same price level.

In this environment, manufacturers must develop products that are new and exciting, yet sport a low price tag. It will be interesting to see what's showing at the next flurry of upcoming shows. Will vendors at the Back-to-School, Toy Fair, Super (sporting goods) and Photo Shows have anything new for their discount store customers?

Last month, I asked for comments on a proposal by K mart chairman Joe Antonini that retailers take a greater role in product development research. The comments I received, both verbal and written, generally agreed with the philosophy that no one knows the retailer's customer better than retailers themselves. Yet, most responses stopped short of endorsing complete retailer involvement in the product development research and planning process. This comment from David Didia, president, Rokina International, an Irvington, N.J.-based manufacturer, importer and distributor of photographic products to camera specialty stores, mass merchants, discounters and catalog showrooms, typified the feeling of many manufacturers:



DON LONGO
Exec Editor

"We agree that the retailer should play a greater role in packaging, marketing and even design of products to give their departments an identity of their own. But, with regard to R&D, production and various elements, that is best left to the vendor."

More comments? Please drop me a note or give me a call at (212) 371-9400, ext 227.

WASHINGTON REPORT

Congress Revives Pay Equity, Wage Hike Bills

The 101st Congress is open for business and—whether the discount store industry is ready or not—federal lawmakers are already beginning to dump payroll-busting legislation into the hopper.

Building on last year's proposal by Sen. Edward Kennedy requiring employers to provide health insurance benefits to full- and part-time workers, Rep. John Dingell, D-Mich., has uncorked legislation calling for a full-blown national health insurance program.

Meanwhile, Rep. Mary Rose Oakar, D-Ohio, resurrected her controversial plan to establish pay equity for women by prodding employers to re-evaluate the comparable worth of jobs traditionally held by females.

KEN RANKIN

This legislation, which is grounded in the theory that female-dominated job categories are typically paid less because of gender discrimination, could lead to serious payroll disruptions in labor-intensive industries such as retailing.

The most direct threat to discount chain payrolls, however, was posed by a bill calling for a series of sharp increases in the national minimum wage.

Like the bill that died in Congress at the end of the 1988 session, the new measure (H.R.2), introduced by Rep. Augustus Hawkins, D-Calif., would boost the current $3.35 per hour wage floor to $4.65. That 39% jump would be accomplished in three steps beginning next year with a 50-cent per hour increase to $3.85. The minimum rate would then automatically rise to $4.25 the following year and hit $4.65 at the start of 1992.

Significantly, however, the new minimum wage bill does not include a key provision demanded by critics of last year's legislation: a special subminimum "training wage" covering newly hired employees.

During the 1988 election campaign, George Bush broke with the Reagan administration and most industry opponents of a rising minimum wage to declare his support for a compromise measure including just such a training wage.

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Specialty Chains Sport Warehouse-Style Stores

Nationwide DSN Report

Starting with this report, *DSN* is updating its sporting goods chain census chart to include the new megastore chains, both independents and subsidiaries of other chains.

Those include Sports Town, Atlanta, a fast growing chain of 50,000-square-foot warehouse clubs; Sports Authority, Fort Lauderdale, a chain of warehouse size stores (also 50,000 square feet in size) based in large part on warehouse merchandising; and All American SportsClub, Los Angeles, the chain that pioneered the warehouse club concept in sporting goods.

SportsClub declared Chapter 11 bankruptcy last year and closed four of its eight units.

Other megastore chains now included are Super Sports, Princeton, N.J., a chain that Oshman's started in late 1987, and Sports Giant, San Antonio, Texas, a K mart warehouse club subsidiary set to open its first two 50,000-square-foot units in early spring.

Another indicator of the trend toward larger stores: Academy, Houston, has adopted a megastore prototype of 40,000 square feet, double its average store size of 20,000 square feet. Academy opened two of the larger stores last year, one in Houston and another in Corpus Christi, Texas, and expects to open four more in 1989.

Another new name on the top chains chart is F.W. Woolworth, New York, which entered sporting goods specialty retailing in October 1987 when it acquired Champs Sporting Goods, Fort Lauderdale, Fla., from Armel Inc. Last February, it bought Robby's Sporting Goods, Bradenton, Fla. In line with its thrust into specialty retailing, Woolworth operates 135 sporting goods stores, including four in Canada, under its Kinney Shoe Corp. subsidiary.

Woolworth has announced plans to go national under the Champs name, projecting a total of 555 stores by 1993. It plans to open some 50 new stores this year, increasing the rate to 100 per year by 1991.

Woolworth has announced plans to go national under the Champs name, projecting a total of 555 stores by 1993. It plans to open some 50 new stores this year, increasing the rate to 100 per year by 1991. Its stores average 5,000 square feet in size and offer a full line of athletic shoes, apparel and equipment, except for hunting and fishing.

Woolworth emphasized that it operates its sporting goods on a full markup basis, not at discount pricing.

Chain sales figures for 1988 were unavailable for this issue but will be included in the July 1989 census issue of specialty retailers.

Top Sporting Goods Chains

Chain	Store Count 1/89	Store Count 1/88	Average Size (In Square Feet)
Herman's[1] Carteret, N.J.	259	242	10,000
Thrifty Corp.[2] Los Angeles, Calif.	233	160	NA
Oshman's[3] Easton, Texas	195	213	10,900
F.W. Woolworth[4] New York, N.Y.	135	54	5,000
Academy Houston, Texas	24	23	20,000
Sportmart Niles, Ill.	21	18	40,000
Irving's Sport Shops Springfield, Va.	18	18	4,000
Sports Town Atlanta, Ga.	6	2	50,000
All American Sports Club Los Angeles, Calif.	4	8	50,000
Sports Authority Ft. Lauderdale, Fla.	3	1	50,000
Super Sports[5] Princeton, N.J.	3	1	50,000
Sports Giant[6] San Antonio, Texas	2	0	50,000

[1]Herman's includes Sunset Sports.
[2]Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.
[3]Decline in Oshman's store count reflects sale of Abercrombie & Fitch division, as well as closure of a handful of stores. Also, total does not include Super Sports division.
[4]F.W. Woolworth includes Champs Sporting Goods and Robby's Sports chains.
[5]Super Sports is owned by Oshman's.
[6]Sports Giant is owned by K mart Corp.

Source: DSN research

HOT OFF THE PRESS. THIS YEAR'S BEST-SELLER ABOUT BEST-SELLERS.

The Regal catalog is 50-pages of the best-selling cookware, electrics, microwave cookware, custom incentives, new products and more.

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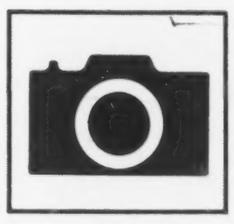

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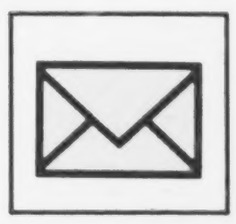

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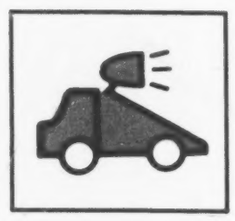

At the super-secretive Toy Fair, Nintendo adds some pizzazz to the return-to-basics trend. 125

Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

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K ma[rt's] American Fare hypermarket to be 'a fun place to shop.' (DSN photo)

A[merican] n Fare: Beyond Super Store

Features Upscale Ambience, Name Brands

By Kenneth M. Chanko

NEW YORK — In selection and depth, American Fare's perishables, horticulture, toys and apparel departments go "beyond anything currently being offered in a super store format," said Larry Parkin, executive vice president, warehouse and grocery operations at K mart.

Speaking at a seminar here at the NRMA convention two weeks prior to American Fare's Jan. 29 opening, Parkin filled in many previously unavailable details about K mart's initial foray into hypermarket retailing.

Parkin said that prices at American Fare will be lower than prices on general merchandise in regular K marts. There will be little overlap in specific merchandise; American Fare's product selection will be 100 percent branded.

Parkin said, "American Fare's total sku's will be less than others operating this type of format, but much more focused on the merchandise that fits our customers' changing lifestyle . . . American Fare will be a destination center for the categories it sells."

(Continued on page 57)

Wal-Mart to Test 'Vendor Store'

A Laboratory for Product Presentation

By Donald Longo

BENTONVILLE, Ark. — Wal-Mart will open a "laboratory store" this spring in which it will test vendor ideas on product presentation.

DSN has learned the "vendor store" will open in May, probably in Janesville, Wis. Sources participating in the program said Wal-Mart has given a key vendor in each category wide latitude in merchandising its department.

In effect, Wal-Mart has told its vendors, "Here's X amount of space. Show us how you would go about increasing traffic in your department, but keep it cost-effective."

The nation's No. 2 discount chain placed two major guidelines on the vendors: the merchandise must be priced consistent with Wal-Mart's standard mix and the program must be practical for rollout to all of Wal-Mart's stores.

Vendor proposals for the store range from simple reconfiguration of existing Wal-Mart fixtures to installation of new fixtures, signage and merchandise not usually sold in standard Wal-Mart stores.

"We will attempt to show Wal-Mart that we can sell more upscale goods in their store," said a manufacturer.

Sources also said that Wal-Mart originally considered locating the store in Houston, Texas—deep in Wal-Mart country. The site was switched to Wisconsin because executives felt the different merchandising of the vendor store would confuse regular Wal-Mart shoppers. Wal-Mart has just 14 stores in Wisconsin, compared to more than 200 in Texas.

Wal-Mart execs did not return phone calls and its public information office said it wasn't aware of the program.

Price Club to Open Home, Office Furnishings Stores

By Pamela Krein

PHOENIX, Ariz. — Price Club, in a major diversification move, plans to launch two home and office furnishings stores this spring as a test of a new concept.

The new Price Club Home and Office Furnishings Stores, approximately 60,000 square feet in size, will be adjacent to a Price Club warehouse in San Juan Capistrano, Calif., and down the street from one of its membership warehouses in San Diego.

Industry observers said Price Club would "explode" the home and office furnishings mix carried in its wholesale clubs with an expanded and more upscale assortment.

Price Co. executives released few details about the new format at the company's annual meeting here on January 17. The new venture was initially disclosed in Price's first quarter report handed out to shareholders, but the subject wasn't publicly discussed at the meeting. Instead, execu-

(Continued on page 145)

K mart Expands Martha Stewart's Role

New Program Premieres 1st Private Label Home Textiles

By Peter Hisey

NEW YORK — K mart will spend millions of dollars this year to make Martha Stewart a star.

At the same time, the company will introduce its first private label line of home textiles as part of a sweeping "At Home with Martha Stewart" program.

Stewart, until recently mainly known as a dining and entertaining consultant and writer, will now expand her involvement with K mart, acting as spokeswoman, designer and consultant for a wide range of home-oriented products—from comforters to joint compound.

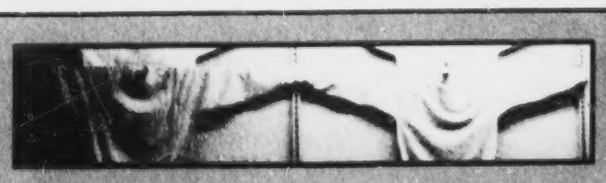
The program, which will feature a wide array of decor-oriented products in various K mart departments, will be supported by an ambitious series of national television ads set to hit the networks early this spring.

The Martha Stewart signature domestics products were created by three major domestics manufacturers: Cannon, WestPoint Pepperell and J.P. Stevens. The private label line includes sheets, pillow shams, bed skirts and curtains. According to K mart, the product line will be expanded considerably in coming months.

The national commercials, which will run beginning April 23 on programs like "Good Morning America," "Today," and "CBS Morning News," will highlight each of the 37 manufacturers who have cooperated with K mart in developing the "At Home with Martha Stewart" program.

In addition to the Big Three domestics suppliers, manufacturers include Dutch Boy, Newell, Rubbermaid, Kenney, Black & Decker, R.A. Briggs, Soundesign, Hoover, Corning Glass, Borden, Gemini Industries and GE.

(Continued on page 146)



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MARKETWATCH

IMRA Readies Ad Conference

NEW YORK — The International Mass Retail Association will hold its 17th annual Advertising Conference at the Tampa City Center Hyatt Regency, Tampa, Fla., March 22 to 24. The conference will feature a discussion on "New Computer Graphics Technology—How It Affects Retail Advertising Departments." Speakers include J. Patrick Kelly, K mart Professor of Marketing at Wayne State University, and Stephani Cook, senior vp/director of new business development at Campbell-Mithun-Esty.

Sears Eyes Japan Apparel Venture

CHICAGO — Sears and its longtime Japanese partner, Seibu-Saison, are discussing a joint venture to open a children's specialty stores chain in Japan modeled on Sear's McKid's children's department. If an agreement is reached, the first stores could be unveiled by this fall. Japan has lowered barriers to foreign investments and Sears could become one of the first American chains to directly participate in the exploding Japanese retail market.

Wal-Mart's Johnson Retires

BENTONVILLE, Ark. — A.L. Johnson has retired as vice chairman of Wal-Mart to pursue personal interests. He remains a director. He was in charge of Sam's Wholesale Clubs, Hypermart USA and the specialty divisions.

Deal Aids Heck's Bankruptcy Approval

NITRO, W. Va. — The Hallwood Group, New York merchant bankers, has agreed to buy from Heck's creditors any stock and junk bonds the discounter intends to issue in partial settlement of its Chapter 11 debts. The deal helps clear way for Heck's to emerge from bankruptcy. The next hurdle is court approval of the agreement and Heck's plan to shut 20 stores, cutting its total to 55.

QVC, Sears Continue Teleshopping Deal

WEST CHESTER, Pa. — QVC has signed an agreement to continue to sell Sears merchandise on its teleshopping program for another two years. Sears products account for about 15 percent of QVC volume, which should be about $200 million in the fiscal year ending this month.

ICL Buys POS Scanner Manufacturer

LONDON — ICL, a computer and software systems vendor, has acquired DataChecker Systems, a $200 million POS scanner maker, from National Semiconductor for $90 million. ICL, whose American arm supplies systems to discounters, hypermarkets, catalog showrooms and other retailers, also obtained rights to use some National Semiconductor system patents and trademarks.

Caldor Challenges State Ad Ruling

NORWALK, Conn. — Caldor has filed a lawsuit challenging a new Connecticut regulation which forbids retailers to advertise an item at the price which results after a consumer redeems a manufacturer rebate. The state said advertising the net price of rebated merchandise was "deceptive." The company asserts that ads aren't deceptive as they explain to consumers that the reduced price is only effective once the vendor rebate has been redeemed.

TCI Drops Bid to Buy CVN Cos.

DENVER — Tele-Communications Inc. doesn't plan to reactivate a leveraged buyout bid for teleshopper CVN Cos. that was dropped when CVN's stock surpassed TCI's offer. TCI had offered $18 a share for CVN, but the teleshopper's stock reached $18.50 a share before sliding about $3 when the TCI bid was dropped.

Developer Purchases Club Wholesale

CHICAGO — Paul Stepan & Associates, a real estate developer based here, has purchased for an undisclosed sum Club Wholesale, a $75 million membership warehouse that operates five stores. Under its new ownership, Club Wholesale closed its Gardena, Calif., unit, but plans to open more stores in the Pacific Northwest.

Sears to Shut 4 Catalog DCs

CHICAGO — Sears plans to close four of 10 catalog merchandise distribution centers during the next 18 months as part of the restructuring of its merchandise division. Three catalog DCs have already been shut as Sears moves to consolidate and speed up catalog merchandise deliveries through more specialized facilities. The restructuring includes separating retail store and catalog inventories by July into separate operations to increase accountability of the merchandise division by specific business segments.

Ward Expands Auto Division; Adds Leased Specialty Services

CHICAGO — In line with its switch to specialty retailing, Montgomery Ward has agreed to lease space in some of its Auto Express automotive centers for quick lube and auto glass replacement shops.

Starting with the Auto Express in Livonia, Mich., Quaker State installed the first of 24 Minit-Lube Centers slated in 1989 for Ward auto centers in January. Quaker State is leasing two or three bays in the Ward auto centers for its quick lube centers, and Quaker State employees will staff them. The decor of the conversions will make them resemble normal Minit-Lube Centers.

The 24 conversions will be in addition to 238 company-owned Minit-Lubes and 105 franchised outlets.

Ward operates 295 Auto Express centers, 10 of which are freestanding and not associated with a Montgomery Ward store.

The 24 Minit-Lubes will be put into Auto Express centers in Michigan, Kansas, Ohio and California.

In a similar venture, Montgomery Ward has agreed to lease space in as many as 50 Auto Express centers to SAFELITE, Wichita, Kan., for auto glass replacement shops.

The first glass shop opened Dec. 31 in Frederick, Md.

SAFELITE operates more than 550 shops nationwide, offering sunroof installation as well as auto glass replacement.

Montgomery Ward recently adopted a new, low everyday pricing policy, but SAFELITE will set its own pricing policy, said Ward spokesman Chuck Thorne.

Ward set a precedent for such ventures by leasing excess space in four Ward stores to Toys "R" Us for toy shops within its stores.

When Ward switched to a specialty retailer format, from full-line merchandising, excess space in stores became available, Thorne said.

Ross Stores Plans New '89 Prototype

NEWARK, Calif. — Ross Stores is moving aggressively into 1989 with plans to introduce a new prototype, plus open four of its relatively new small stores.

The off-price apparel chain's new full-size prototype will sport major changes in adjacencies, checkouts, exteriors and dressing rooms. The chain has also refined fixturing, segmentation and interior design in the new stores, according to Ross' chief financial officer Earl Benson.

Last summer, Ross unveiled an updated version of its existing full-size prototype that featured a brighter color scheme, new fixtures and more departmentalization. While these changes only modernized the existing layout, the new prototype will create an entire new Ross format.

"We needed a whole new look to keep up with our customers," Benson told *DSN*. The executive said the first stores under the new format should open in March or April.

The 140-store chain is also set to open more smaller-sized stores during the year. Introduced last fall in two small California cities, the stores are between 11,000 square feet and 14,000 square feet—about half the size of a typical Ross store.

Because of the reduced space, the primary focus is on women's apparel, shoes and accessories. Benson added, however, that some of the larger small stores can also carry men's.

Ross' full-size 25,000-square-foot stores carry women's—including petites and large sizes—men's and chil-

(Continued on page 145)

Antonini Hosts Inauguration Gala

K mart chairman Joseph Antonini (left) hosted a reception for officials of the Reagan and Bush administrations on the eve of last month's Presidential Inauguration. Honored guests at the affair, held in Washington's Sheraton Carlton Hotel, included former Education Secretary William J. Bennett, incoming Housing and Urban Development Secretary Jack Kemp, and CIA Director William Webster. The gala was co-sponsored by Seymour and Marc Holtzman (right) of Gruen Marketing.

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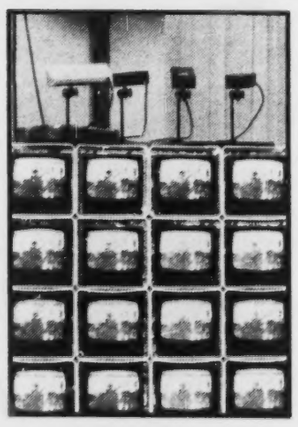

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APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

A Growing Feeling for Fleece

By Kenneth M. Chanko

American consumers love the comfort of fleece, and the demand for casual and activewear apparel made from this fabric will remain strong through 1989.

A *DSN*-commissioned survey of consumers representing a cross section of the adult American population revealed that as many as two-thirds of all consumers own clothing made of fleece.

Moreover, nearly half of all surveyed said they would either "definitely" or "probably" purchase more fleece items this year. Another 32 percent indicated "maybe" they would make such a purchase. Out of 450 households sampled, less than 9 percent said they would "definitely not" buy fleecewear.

Discounters topped both mass merchants and department stores as consumers' No. 1 source for fleecewear.

The demand for fleece tops/sweatshirts was greatest, with more than half (53 percent) wanting such an item. Matching suits/sweatsuits (28 percent), and fleece bottoms/sweatpants (23 percent) were the next most popular fleece products.

Responding last month to a wide range of questions about fleecewear, consumers resoundingly confirmed the continuing trend toward wearing fleece apparel more for relaxing than working out. Two in three consumers said they "more often" wore fleece apparel for non-sweat-related pastimes than for sweat-inducing activities.

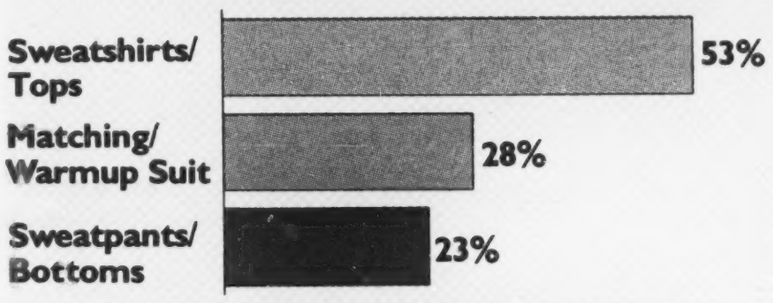
Fleece is most popular with a younger age group and with women, the survey revealed. Respondents who "definitely or probably" will buy fleece in the coming year had a mean age of 42. Those who responded "maybe or definitely not" had a mean age of 47. Similarly, those likely to buy fleece this year were more often women (57 percent) than men (43 percent).

Significantly, discounters are seen as the major source for fleecewear in the eyes of the American public, the survey found. Of those who said they would buy fleecewear, more than one in three (37 percent) consumers spontaneously named a discount store when asked where they would go to purchase such items. Mass merchandisers and department stores (both 23 percent) vied for the second spot. And an additional 42 percent, when asked directly, said, "there is a chance" that they would purchase fleecewear at a discounter, with only

(Continued on page 62)

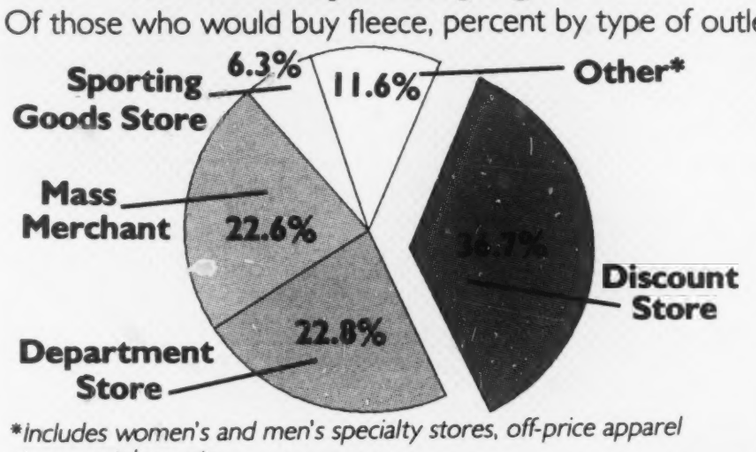
The Demand for Fleece

Percent of respondents who would buy fleecewear:



Where They're Buying Fleece

Of those who would buy fleece, percent by type of outlet:



**Includes women's and men's specialty stores, off-price apparel stores, catalogs, etc.*

Source: Leo J. Shapiro & Assoc.; Discount Store News

Cocooning In Fleecewear

KEN CHANKO
Senior Editor

It's Saturday morning and you know you're going to be able to spend most of the day lounging around your house. Maybe you'll do one quick errand that will take you to a nearby store. So, do you put on your jeans or your sweatpants? Your T-shirt or your sweatshirt?

If you're like most people, you're much more likely today to go with the sweats—or fleecewear—than the denims and shirt compared to 10 or so years ago. I've arrived at this conclusion through both a personal poll of family, friends and business associates and a logical extrapolation of data from a national survey on fleece apparel commissioned by *DSN* (see story above).

The Leo J. Shapiro & Associates survey revealed that many people see something "special—even healing—about putting on your sweats." It's not difficult to see why. Fleece is probably the most comfortable fabrication around, and other positives include its ease of care and its modest cost compared to most other fabrics.

But what fleece really has going for it is demographics and leisure-time trends. Here's what I mean. Ask yourself why unit consumption of denim jeans in this country has been flat to slightly off over the past several years, while the demand for apparel made of fleece has been rising.

I think it's safe to say that, on average, the older one gets the more one starts to pay more attention to comfort than fashion. While denim is a more stylish fabric, it isn't as comfortable as fleece. So as the baby boom generation heads into its late 30s and early 40s, the shift from jeans to fleece is an obvious one. And I'm not talking about people never wearing jeans now and always wearing fleece. But even a one-item-a-year shift from denim to fleece—per person per year—adds up.

Now consider the whole "cocooning" trend, with more and more people choosing to spend their leisure time at home more and more often. I think you're beginning to see the overwhelmingly bright future in store—hopefully, *your* store—for fleece.

As a discounter, if you're not paying at least as much attention to the fleece category as you are to denim, you're missing out not only on sales, but, even more critically, on profits.

When consumers think fleece, they don't automatically think brand name, unlike the jeans category. So you're much more likely—if it's the right item, of course—to win the consumer over to a private label or neutral brand in fleece because of that non-brand consumer mindset. Which, in turn, means your margins won't be squeezed like they are in branded jeanswear.

I also must mention the men's big and tall and women's plus-size categories. Simply put, fleece couldn't be more of a natural for these categories. The bigger the customers, the more they demand comfort.

And when it comes to apparel, comfort—as we've seen—equals fleece.

American Consumers Have a Feeling for Fleece

(Continued from page 59)
14 percent not willing to entertain such a possibility.

Not surprisingly, consumers expect to spend less for fleecewear at discounters compared to other retailers. On the average, consumers expect to pay $26 for a fleece item, while those who said they are most likely to buy fleecewear at a discounter said they expect to pay just $18. Regardless of outlet, shoppers expect to pay an average of $23 for a shirt/top made from fleece, $23 for pants/bottoms and $33 for a matching top and bottom set.

In terms of individual stores, K mart (24 percent) was the most popular destination among those who would buy fleecewear. K mart topped all other mass merchants combined (23 percent), as well as all other department stores combined (23 percent).

The next most popular store was Sears (13 percent), with JCPenney (7 percent), Wal-Mart (5 percent), Montgomery Ward (3 percent), and Target (2 percent), following.

When asked to rate the specific qualities of fleece that makes the fabric attractive to them, warmth (36 percent), comfort (36 percent), and softness (35 percent) were most often mentioned. Ease of care/easy to wash (18 percent) followed most closely behind.

Asked to rank the importance of comfort vs. looks, an overwhelming 78 percent said comfort was more important. When the question was comfort vs. ease of care, comfort (67 percent) was the winner again. When matched against looks, ease of care (54 percent) won out.

In terms of the specific qualities of fleece that consumers liked, after ease of care came durability (5 percent), not binding/loose fitting (3 percent), absorbent (1 percent), "it breathes" (1 percent), and texture (1 percent).

Other responses (all below 1 percent) were "feels good/nice next to skin," "attractive, neat-looking," "no ironing required/doesn't wrinkle," and—very low down on the list—not expensive.

While there is a significant market for fleecewear in all colors and designs, three out of four respondents (77 percent) preferred solid colors to prints and/or designs.

As to specific colors, blue (64 percent) was the consumers' first or second choice. Gray (25 percent) was next, and then black (18 percent), red (16 percent), pink (14 percent), white (12 percent), and green (10 percent). Such fashion colors as burgundy/maroon, lavender/purple, blaze orange, and peach/coral were also mentioned.

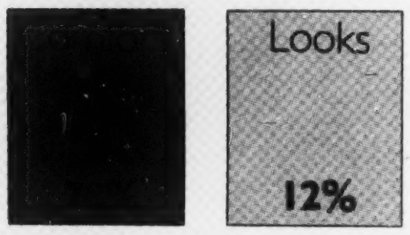
As for fabrication preference, cotton-blend fleecewear was only a slight favorite (51 percent) over all-cotton (42 percent).

Consumers showed little brand association in the category, with no single brand name dominating the consumer's mind when it comes to fleecewear. Only Nike (6 percent) and Adidas (6 percent) were named by more than 5 percent of all consumers when they were asked to think of labels, brand names or designers who make fleece apparel. Other brand names cited (in order of total mentions) were McGregor, Hanes, Russell, and Wilson.

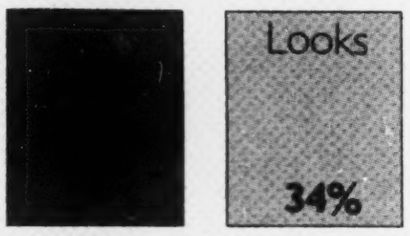
Why They're Buying Fleece

The qualities of fleece most important to consumers:

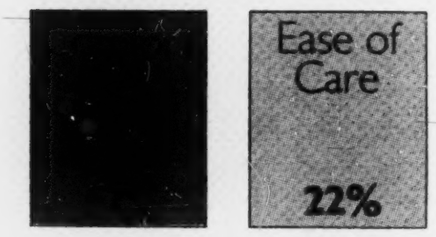
Comfort vs. Looks



Ease of Care vs. Looks



Comfort vs. Ease of Care



Source: Leo J. Shapiro & Assoc.; Discount Store News

How many pairs of jeans

Well, how many did you sell last month?

With IBM's in-store processing systems, you'd know just what to reorder.

In-store applications help you manage your business operations and inventory needs. Our Point-of-Sale systems can tell you how much of a particular product you're selling. This information can be processed in the store and then communicated to your headquarters, so that the items ordered to fill your shelves are the items your customers want.

In-store processing includes other useful applications, too. Labor

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HOME PRODUCTS

HOUSEWARES / DOMESTICS / PHOTO / CONSUMER ELECTRONICS / HOME OFFICE / RTA FURNITURE

Photo Supplies			
	1987	1988	Change
As percent of store sales	1.88%	1.67%	(0.21%)
Number of turns	4.14	4.07	(0.07)
Cumulative markup	25.48%	24.64%	(0.84%)
Shortage at retail	2.91%	3.93%	1.02%
Promo markdown at retail	3.79%	3.38%	(0.41%)
Clearance mkdown at retail	2.74%	1.85%	(0.89%)
Total markdown at retail	6.91%	5.19%	(1.72%)
Gross margin	16.34%	15.67%	(0.67%)
Sales per square foot	$675.06	$1,174.35	$499.29
Gross margin per square foot	$107.13	$ 182.79	$ 75.66

More Expensive Goods Boost Productivity

NEW YORK — While 1987/88 saw sales per square foot in discount stores plunge, photo departments were significantly more productive than ever before, according to a study conducted by the International Mass Retail Association. The Cornell Study, named for the university that compiles the results, found that sales per square foot in discount store photo departments nearly doubled this year, from $675.06 in 1986/87 to $1,174.35.

Elsewhere, photo departments did not fare as well. Expressed as a percentage of store sales, photo's contribution dipped from 1.88 percent to 1.67 percent, and gross margin also slid slightly, from 16.34 percent to 15.67 percent. Cumulative markup dipped to 24.64 percent from 25.48 percent, and inventory turns were also lower, 4.07 vs. 4.14 (still above hard lines and total store average). On the other hand, total markdown at retail also declined, from 6.91 percent to 5.19 percent of sales. Shortage at retail (shrink) increased markedly, from 2.91 percent of sales to 3.93 percent.

The dramatic shifts in shrink and sales per square foot figures may be explained, in part, to the advent of more expensive goods in discount store photo departments. While the gross sales rise significantly as price points rise, each episode of theft is more expensive.

Overall (apart from shrink and per square foot figures), declines were minor compared with complete store figures. Cumulative markup declined nearly 2 percentage points in hard lines and more than 1.5 points storewide, but less than 1 point in photo. Total markdown dipped across the board.

The key figure, however, seems to be sales per square foot. While nearly every major category experienced erosion of sales, photo boomed. Hard lines, on average, dropped to $152.07 from $204.49. Storewide, the figure fell to $120.42 from $178.03. Even if part of photo's growth per square foot is explained by some slightly smaller departments, the contrast with whole store performance remains startling.

New Video Technology To Greet Photo Buyers

NEW YORK — When buyers gather for the Photo Marketing Association's annual trade show, to be held this year at the Dallas Convention Center Feb. 12 to 15, they will be greeted with technology that may replace the massive film market.

Video still cameras, last year an exotic professional-use product, have moved into the consumer market in a big way. While they may be too expensive for most consumers today, the price is sure to come down.

The cameras use inexpensive, reusable computer disks to store visual information digitally. The information is then retrieved and either displayed on a television screen (goodbye slide projectors) or printed (ditto print film).

Besides being very expensive, the prints are, to date, not up to 35mm quality, and professional photographers will probably stick with film, at least for the foreseeable future. However, as prices drop and printing technology improves, the appeal to consumers should be enormous.

"The technology is still five years away, but we're looking at the end of the film business," said Ray Weikel, vice president, merchandise and operations manager, photo electronics division, Fred Meyer, the Portland, Ore.-based super store chain. "The technology looks very good."

Attendees will probably see another round of relatively inexpensive "bridge" cameras, as well as exciting promotional film programs from major suppliers like Fuji and Kodak.

Apart from still video cameras, major photo products that premiered or were announced at CES include Sharp's 90-minute compact videocassette, which will make compact camcorders more attractive than ever; added camcorder features, like animation functions on a new RCA model; and an inexpensive camera/radio combination from Keystone.

Still video cameras, like Canon's ZapShot (here at its CES premiere in January), will be one of the highlights of this year's PMA show in Dallas. (DSN photo)

Last year, attendance was a little over 20,000, and PMA, while refusing to make projections, expects similar results this year. PMA '89 will feature a lineup of guest speakers, seminars and workshops similar to those of recent years. Pre-convention highlights include a two-day golf tournament, management institutes and motivational seminars with football hall-of-famer Fran Tarkenton as the keynote speaker.

The trade exhibit floor opens Sunday, Feb. 12, and speakers include Stanley Marcus of Neiman-Marcus and actress Patricia Neal (spouse program). There will be a reception in the main lobby of the Convention Center at 6:00 p.m. Evening seminars will follow the reception.

On Monday Feb. 13, the full seminar series opens. Speakers in general sessions will include futurist Dr. Marvin Cetron, Ann Landers, and representatives of Polaroid, Olympus, Kodak, Standard Manufacturing and Bremson Data Systems.

Seminars continue through Wednesday. Speakers scheduled for the final days include columnist Jack Anderson and professional collector Set Momjian.

Full on-site registration costs $35 for PMA members, $60 for others, and most seminars and breakfast workshops cost an additional $7 or so.

For more information, contact PMA at (800) 248-8804 or (517) 788-8100 (Michigan).

SOUND BYTES

PETER HISEY
Assoc Editor

Holiday '89 Sales: Not So Ho-Ho-Ho

Now that the Christmas season is over, let's talk about Christmas. Next Christmas. From current indications, it won't be the same kind of ho-ho-ho holiday most CE retailers experienced in 1988—and has the potential to be an unmitigated disaster.

According to economists and analysts who addressed the recent NRMA convention in New York, the fourth quarter of 1989 will be a disappointment to retailers at large, with 1989 growth projected to be in the mid-single digits.

Ominously, however, it appears that major purchases (durable goods like cars and houses) will suffer horribly at the hands of inflation and consumer spending cutbacks. That trend could well affect upper-end audio/video equipment.

And, while sales projections of lower-end goods are favorable, it appears that those goods will be costlier and in short supply, as demand steps up and Korean and Japanese suppliers cut production and sell to more lucrative markets like Europe, Latin America and China.

CE retailers could be squeezed into the unattractive position of trying to sell a pickier customer on a limited selection of more expensive products. Most-wanted and least-expensive goods could be chronically out of stock come Yuletide '89, creating that most vivid of retail nightmares, bare shelves during the prime shopping season of the year.

According to U.S. representatives of major Korean vendors, shortages are inevitable. One prime cause: China needs refrigerators and its government is under pressure to supply them.

China is in a rather enviable position in this case. Korea, the major supplier of inexpensive refrigeration units, is short on raw materials, which China has in abundance. The net result: The Chinese will pay $125 in iron ore for each refrigerator, the United States will pay about $91 in cash. Guess who gets the refrigerators.

Another factor in projected shortages is the U.S. consumer, who has become addicted to steadily dropping prices. A cassette deck that sold for $350 in 1973 can now be had for a devalued $150. A 13-inch color TV which may have once attracted a premium price is now a loss leader.

Customers in Latin America and Europe, on the other hand, have never seen this level of discounting. And they regard most home electronics as luxury items, not commodities. They will pay more. Guess who gets the cassette decks, VCRs and color TVs.

At CES, manufacturers who used to offer six-month price protection to major customers will now only guarantee prices for 90 days. And few could guarantee second half delivery of certain products.

Which could lead to the situation a major East Coast retailer found itself in late last year. An order for 70,000 color TV sets to cover an extensive promotion was arbitrarily cut to 7,000 units by a Korean manufacturer. Goodbye promotion, goodbye profits.

There is no obvious solution to this dilemma. Until things readjust, retailers and consumers alike could be facing a bleak Christmas.

Price Club to Test Home & Office Furnishings Specialty Stores

(Continued from page 1)
tives discussed several other new endeavors pertaining to its warehouse clubs.

Price Co. president and chief executive officer Robert Price refused to elaborate on his plans when questioned by shareholders prior to the formal meeting.

Executive vice president and chief financial officer Giles Bateman did confirm to *DSN* the locations of the initial sites. Beyond this, he declined to comment on store size and format, product categories or number of sku's.

The quarterly report said Jerry Clark, a long-time Price employee, is heading up the new division, which will open two pilot stores this spring.

Another new project, the testing of Price Club's first one-hour photo processing lab at its Chula Vista, Calif., warehouse, propels the company into a hot service area.

While many warehouse clubs and discounters offer photo finishing, few chains have ventured into the one-hour business, leaving this segment instead to specialty retailers. Price Club opened the initial site in December, and is still testing the service.

Price Club continues to furnish seven-day photo finishing and first class direct mail-back at its other stores. The firm plans to move its photo processing center into the former A.M. Lewis grocery distribution center in National City, Calif., acquired last year.

The company's lens grinding lab—which services the chain's 18 optical centers—is already in that facility, and its meat processing plant will soon move there.

Another new endeavor is food packaging. Dan Carter, vice president of finance, told *DSN* that the endeavor goes beyond the multipacking of goods that vendors do for the clubs to include actual repackaging of manufacturers' products by Price Club. Candy and pasta are food items likely to become part of this program.

Price said the company is looking to expand its frozen food merchandising. He said the company is also exploring several other projects, which remain confidential.

Price also assured shareholders that while his father and Price Club founder Sol Price didn't seek reelection as chairman—rather becoming chairman emeritus—the senior Price is still very active in the firm.

Robert Price, who took on the additional title of chairman, said his father had been preparing the company's younger executives to take over Price Club's management for some time. Price said his father can now devote more of his time to entrepreneurial endeavors rather than company meetings.

Reviewing recent quarterly results, Robert Price said: "I think we did a good job in the first quarter, but I always think we can do better." During the period ended Dec. 18, 1988, the company's sales increased 22.2 percent to $1.57 billion, while net income escalated 25.9 percent to $38.9 million.

Price said a key asset of the A.M. Lewis deal was the real estate and facility in Northridge, Calif., which he said should be converted to a Price Club store later this year. The chain will open other new stores during the year in San Diego, Concord, Calif., Tucson, Ariz., and Babylon, N.Y., while relocating the Fountain Valley, Calif., and Glen Burnie, Md., units.

Price Seeks Shareholder Approval For New Dividend-Paying Stock

SAN DIEGO — The Price Co. plans to seek shareholder approval next month for the issuance of its first dividend-paying stock.

But confusion over the plan to issue a new preferred stock that would pay a $2.50 per share dividend may have caused Price's common stock to drop almost two points last month and remain in the $36 to $37 per share range.

The plan, due to be submitted to shareholders at a special meeting next month, calls for the distribution of one share of preferred stock for every five shares of common stock. After shareholder and regulatory approval, the company would issue the new shares by early April.

The move, announced at the annual shareholders meeting in Phoenix, Ariz., is designed to pay investors the company's first ever regular dividend.

However, shareholders were confused over the options available under the plan.

Shareholders can retain both the common and preferred stock, receiving income just from the latter. Or they can sell either or both the preferred or common stock. The preferred shares would be sold at whatever becomes its market price in over-the-counter trading.

President and chief executive officer Robert Price said the two classes of stock " allow each shareholder to participate in both aspects of the company, or whichever one they want to concentrate on."

Chains Grapple with Tight Labor Market

(Continued from page 5)
problems, though, Shea conceded, when employees learn they earn less than do similar associates who work at a Clover store just down the road.

Clover has had little success in hiring senior citizens, Shea said. "They have too much money. Once they retire, the want to stay retired.

"We're trying harder to keep the people we can find," Shea said. Last fall, Clover began providing part-timers who work at least 14 hours a week the same benefits, on a pro rata basis, as they do full-time workers.

Those benefits include vacation, holiday and sick day pay, medical insurance (on a co-pay basis), optional life insurance and half of the basic free life insurance that full-time employees receive.

Few part-timers take the medical insurance, because their spouses usually have coverage. Hence, Clover has seen little cost increase from its share of premiums, Shea said. Clover self-insures the free life insurance coverage, which ranges from $1,000 to $3,000, so it hasn't seen any immediate cost increase.

All part-timers take the vacation, holiday and sick pay benefit, Shea said, but the benefit program for part-timers is too new to calculate the annual cost.

Clover also turned to technology to help plug the labor gap and improve productivity, Shea said. Last October, the chain finished equipping all of its 22 stores with labor-saving checkouts that feature not only scanners but also supermarket-style conveyor belts.

At Makro, Cincinnati, the focus for 1989 will be on retaining employees, rather than trying to recruit new ones.

As one way to cut turnover, Makro last fall began giving exit interviews to those who quit, said Peter Nadherny, vp, personnel. Makro, the warehouse membership club subsidiary of K mart, found that outgoing employees were seeking greater flexibility in scheduling.

Consequently, Makro adopted a new policy that permits employees to work fewer hours and days than before. And to institute greater flexibility, Makro bought the scheduling software from Long Beach, Calif.-based Senn-Delaney, and shifted from manual to computerized store scheduling, he said.

In a recruiting wrinkle, McCrory Stores, York, Pa., holds job fairs right in its variety stores to draw new workers from among its customers, said Robert Jewell, senior vp for human services. A personnel rep is on hand to interview interested persons. If their references check out, they can be hired the next day, he said.

The job fairs have proven extremely cost-effective, Jewell said, and employees hired that way stay longer than those who walk in off the street.

At the IMRA conference, L.H. Harvin III, chairman and ceo of Rose's Stores, Henderson, N.C., will address one of three general sessions. He will speak on Retailing of the 90's—Challenges for Operations and Store Personnel.

For more information, call conference manager Debra A. Dohnert, at (212) 354-6600.

Shelf Pricing Catches On at Chains

(Continued from page 5)
Carrefour, the French-owned hypermarket in Philadelphia, and Office Depot, the Boca Raton, Fla.-based office supply megastore chain, are other examples of discounters using shelf pricing.

"The major obstacle to shelf pricing is consumer resistance," said Robert Amster, manager of retail consulting for New York-based Arthur Young, a public accounting firm. "A good descriptive sales receipt is essential to sell it to consumers."

Beyond shelf pricing with paper labels, the next step is electronic shelf pricing (ESP), said Harris Gordon, a retail consultant for Touche Ross International, a Boston-based public accounting firm.

Instead of a paper label, ESP uses an LCD display to show the price, Gordon said. Euromarche is testing in a French hypermarket one of the three systems available on the American market.

Electronic shelf pricing is "pretty expensive, now," said George Hite, vice president, public and consumer affairs for Minneapolis-based Target.

"It's in the future. Once you go from item pricing to shelf pricing, you look for even more efficient ways to go."

Hite declined to disclose any details about the economies of shelf pricing. "I'm confident we're getting a good return on our investment," he said. Shelf pricing means "we operate more efficiently."

Consumers have reacted favorably, Hite said, because they know shelf pricing helps keep the lid on prices.

One problem Hite noted is that customers sometimes move goods away from shelf price areas. In response, Target had to realign some shelf-pricing planograms and in some cases even go back to individual item pricing, he said.

As was the case at Target, shelf pricing was a year-long program for Venture.

Venture began testing shelf pricing in two Illinois stores, Fairview Heights and Oakbrook, in the fall of 1987. It began rolling out what it calls "price removal" in July 1988, starting with its new stores in South Bend and Mishawaka, Ind., and completing the job three months later.

Venture's shelf pricing system is based on a personal computer and a laser printer in each store for printing shelf labels. The chain had to create some 25,000 shelf labels.

"Electronic shelf pricing may be the answer in 1991 for discounters," speculated Arthur Young's Amster.

Ross Stores Plans New Prototype

(Continued from page 6)
dren's apparel, plus cosmetics and fragrances, shoes, accessories and hosiery.

The downscaled stores are a "way to make our stores fit into a demographic area" that could not support a full-scale location," explained Benson.

Overall, Ross plans to open 20 to 25 stores in both 1989 and 1990, which is considerably more than the nine stores the chain opened during 1988.

Although store growth during the past year was slow, the off-pricer was able to steadily increase its sales volume and earnings. While 1987 was a rebuilding period for the chain, after having come off a $41.5 million loss in 1986, the past year has allowed Ross to start moving forward again and gain greater momentum.

Recent third quarter results showed the chain posting sales of $151 million compared with $138 million in the same period a year ago. And even more significant gains were made on net earnings; at $3.57 million, the result was more than double 1987's quarterly figure of $1.39 million. Similarly, for the first nine months, Ross' net income was $9.93 million compared with $1.95 million for the first nine months in 1987.

DSN Honors Tuttle

NEW YORK — Dave Tuttle, area manager, based in DSN's Cleveland bureau, was recognized as the 1989 DSN Salesman of the Year. Among his many achievements, Tuttle leads the staff in new accounts and in supplement sales.

DISCOUNT STORE NEWS

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Vol. 28, No. 3 February 6, 1989

FM

FOOD MERCHANDISING
FOR NON-FOOD RETAILERS

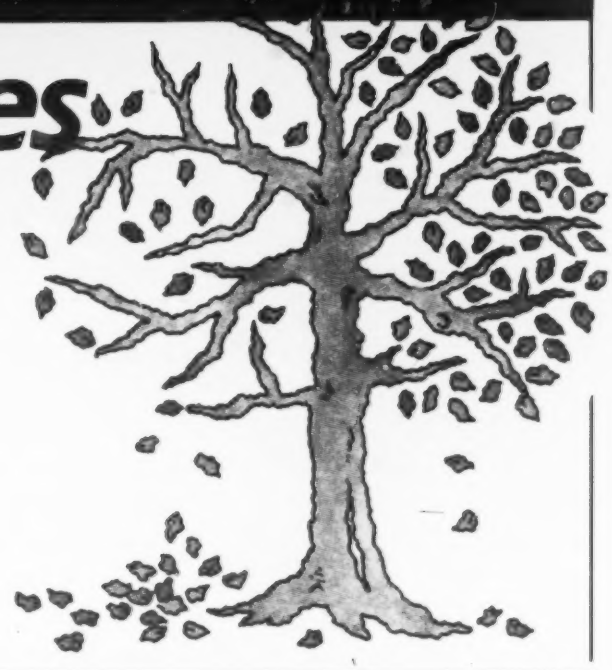
Winter

Profile: Snack Sales Surge Page 29

FM Special Report:

Sharp Teamwork Between Manufacturers, Brokers And Nonfood Retailers Shoot Grocery Category Sales Up 14 % To $18 billion

Best Selling Categories of Fall



The chart below lists the best selling categories in food stores for the months of September, October and November.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ending in January, 1988.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

Foods and Groceries: Best Sellers of Fall
(Average three year index ranking)

September		October		November	
Foods	**Index Ranking**	**Foods**	**Index Ranking**	**Foods**	**Index Ranking**
Packaged soft sugar candies	196	Packaged Non-chocolate chewies	207	Canned Cranberries	322
Packaged Non-chocolate chewies	171	Packaged soft sugar candies	203	Baking nuts	309
Fruit Pectin	130	Cider	186	Dates	304
Vinegar/cooking wines	119	Packaged hard sugar candies	150	Cider	251
Canned Meat Spreads	119	Packaged diet candies	145	Packaged chocolate covered fruit	239
Canned sausage/ frankfurters	119	Canned Chili	138	Sterilized milk	221
Packaged hard sugar candies	118	Dates	135	Packaged Novelties	216
Dry Toaster Items	117	Baking Chocolate & Bits	134	Baking Chocolate & Bits	214
Bottled water	117	Tomatoe puree	130	Stuffing mixes	208
Spoonable salad dressings	115	Canned kidney/misc beans	130	Corn syrup	206
Canned Corned beef	113	Canned meat stew	128	Coconut	205
Chocolate candy bars	113	Dry Toaster Items	128	Dry Yeast	205
Canned lunch meat	113	Fruit rolls/bars	126	Canned potatoes	198
Multiple pack gums	113	Bread & Cracker crumbs	125	Pie crust mix	194
Packaged chocolate covered nuts	113	Cereal meal	123	Canned onions	183
Lemon & Lime juices	112	Solid Shortening	122	Canned pie filling	174
Cereal Meal bars	111	Tomatoe paste	122	Packaged hard sugar candies	173
		Tomatoe sauce	121	Brown sugar	172
				Croutons	166
				Packaged chocolate covered nuts	160
Non Foods					
Paper Household bags	144	Rodenticides	163	Heatable Plastic bags & wraps	275
Plastic Storage bags	125	Air Fresheners	120	Disposable containers	194
Laundry soil/stain removers	123	Rug cleaners	119	Fireplace logs & bricks	175
Handle goods	119	Upholstry cleaners	117	Rodenticides	160
Upholstery cleaners	119	Mildew removers	116	Coffee makers	127
Disinfectants	119	Disinfectants	116	Rug cleaners	119
Window cleaners	116	Starches	114	Light bulbs	115
Rug cleaners	115	Furniture Care	112	Dry Cell Batteries	113
All purpose cleaners	114	Laundry soil/stain removers	112	Waxed Paper	110
All fabric bleaches/ detergents	114	Handle goods	111		
		Light Bulbs	110		
		Disposable Containers	110		

Source: Sami Seasonality Study

Grocery Sales Are Up in Nonfood Stores

Sales last year surged 14% to over $18 billion. Buyers say more promotions and manufacturer/broker cooperation are key factors

Nonfood chains say their best selling groceries are commodity items like tuna and coffee.

Grocery product sales in nonfood stores were up an estimated 14% last year, according to Fm's estimates.

An analysis done exclusively for Fm by Malcolm Knapp Inc. shows that grocery product sales to drug, discount and wholesale club stores rose 14% to about $18.3 billion last year.

This year, Fm is projecting that sales will go up at least another 13% to over $20 billion.

Much of the growth is coming from the sales of promotional groceries. Except for Walgreens in the chain drug industry and K mart and Wal-Mart in the discount industry, most of the major drug and discount chains have slowed down their expansion of convenience or dry packaged food departments.

For this past year, most of the drug and discount chains have been concentrating more on their core businesses. The drug chains have been investing more time and energy in their core categories of pharmacy, hba, cosmetics, etc., and the discount chains have been concentrating on building their image and improving their presentations of clothes, appliances, and other gm categories.

"Convenience foods is still an area we're interested in," said a source for one of the major discount chains, "but for the time being we're concentrating on other things. We're using foods primarily as a traffic builder and impulse sales generator."

With the exception of Walgreens, which now has about 550 stores with convenience food departments, most chain drug buyers are also concentrating more on promotional groceries this year.

Their strategy, they say, is to carry the convenience, high consumption items that people either seek out when they're on ad or buy impulsively when they see them displayed at a good price.

Many buyers for drug and discount chains tell Fm that they have promoted groceries much more ag-

Grocery Sales Trends in Membership Warehouse Club Stores
(retail sales millions)

Category segment	1982	1985	1986	1987	1988	1989
Packaged Groceries (excludes snacks)	$122	$1,526	$2,802	$4,203	$5,181	$6,201
Packaged Alcohol	13	174	327	490	603	721
Paper Goods	11	153	288	444	564	675
Soaps/Household cleaners	12	157	296	449	560	670
Pet Foods	6	80	154	239	304	376
Total Sales	164	2,090	3,867	5,825	7,212	8,643

Source: Malcolm Knapp Inc., New York

Features

FM Special Report:

Grocery Sales In Nonfood Stores Were Up 14% in 1988

8

Fm is estimating that nonfood grocery sales topped $18 billion in 1988 and will rise another 13% in 1989 to exceed $20 billion.

1988's Best Selling Promotional Groceries

12

Nonfood buyers say seasonal and convenience groceries as well as household cleaners were their strongest selling grocery items last year

Buyer, Manufacturer, Broker Partnership Fuels Sales Growth

15

Grocery buyers for nonfood chains say manufacturers and brokers are sparking grocery sales by being more flexible and by creating programs that meet nonfood's special needs.

Candy Sales Surged In 1988

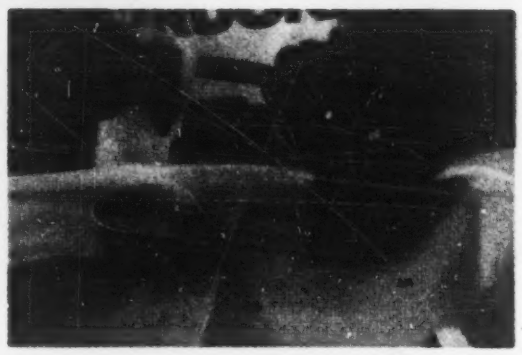
21

Buyers say their chains are promoting the category more and giving it more prominent locations in their stores.

Consumers Respond To Snacks In Nonfood Stores

29

Buyers estimate sales are up between 15% and 25%. Many chains are expanding into cookies, crackers, popcorn, chips and other high consumption snacking items.



Departments

Food For Thought

Drug and discount chains are romancing candy buyers by discounting high margin theatre packs.

5

SAMI Category Seasonality Report

Best selling categories of fall 6

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Drug & Discount Chains Find New Way To Romance Candy Buyers.

Elizabeth Parks

Drug and Discount chains have found a new way to offer their customers a super value on candy: by featuring high mark-up king size candy bars, that movie theatres sell at concession booths, at sharply discounted prices.

According to candy brokers, the strategy first surfaced about two years ago when Walgreens and Osco, both drug chains headquartered in Chicago, began promoting the king size bars that most movie theatre concessionaires mark-up 250% to 300%.

Walgreens may have been the first to promote the theatre packs. Sources say their management took the same bars that the movie houses were marking up by 250%, marked them up just 30% to 50% depending on the occasion, and began promoting them at three or four bars for a $1.

Since then, more chains have been buying the theatre packs, and in the last 12 months, the strategy of offering these particular items at especially low price points has become very intense.

"The candy manufacturers have always catered to the concessionaire market," says one buyer. "But now, they're expanding those packs into the retail trade and it gives us an opportunity to promote a very good value at a price point that actually makes us money."

According to candy broker Don Vogel of Vogel Hoffman in Chicago, the idea for promoting theatre packs at retail evolved through "the ingenuity of retailers and sales reps."

Vogler said that drug chains, in particular, were searching for a candy they could promote at an especially good price point. By marking their candies up 250% to 300%, the concessionaires had created a niche or a void that the drug chains knew they could fill.

Walgreens, for example, began promoting the king size bars at multiples of three or four for a $1. The consumer who had just spent $1.29 for that same bar in a movie house immediately recognized the savings.

Oddly enough, the nonfood trade has been able to exploit its opportunity without worrying too much about banging heads with the food chains.

"The food chains are just starting to look at it now," says Vogel. "They've been slower to get into this because food looks at the candy category as basically a profit center. It's something they have to be in, but they don't pay too much attention to it.

"Now the drug and discount stores, on the other hand, use candy as a traffic builder. For them, it's a commodity that can build traffic, and they are constantly trying to change and romance that department."

Some of the romancing can be seen in the way many drug chains merchandise candy in their stores. Walgreens, for example, will often give four to five of its feature tables to in-store candy presentations, and candy controls more end caps in a Walgreens store than any other commodity.

In addition to promoting the theatre packs regularly, Walgreens also carries them at a low everyday retail. Everyday, the theatre packs will sell between 69 cents and 89 cents in Walgreens.

gressively this year than in prior years.

Most say they have a two-fold objective for staging more grocery promotions. They're using them to build traffic, "to attract more shoppers into our stores" and they're using them to generate additional impulse sales.

Both the drug and discount chains are about equally as aggressive with grocery promotions these days, but the discount chains prefer to advertise large sizes, and because they have bigger stores, they also give more feature space and more display space to traditional packaged grocery items like cereals, canned meats and fish, soups, condiments, jams and jellies, etc.

Discount chains also give more space to household cleaners, pet foods and beer, wine and alcoholic beverages.

Snacks are one of the nonfood chain's strongest grocery categories. Most chains are expanding this department.

Grocery Sales Trends In Discount/General Merchandise Stores
(retail sales millions)

Category segment	1982	1985	1986	1987	1988	1989
Packaged Groceries (excludes snacks)	$3,132	$3,461	$3,466	$3,301	$3,342	$3,571
Packaged Alcohol	426	717	825	874	985	1,058
Paper Goods	154	263	294	317	355	427
Soaps/Household cleaners	79	103	110	112	120	128
Pet Foods	52	84	94	97	114	140
Total Grocery Sales	3,843	4,628	4,789	4,701	4,916	5,324

+ Discount stores account for approximately 56% of the above total sales. The rest is generated by department, variety and miscellaneous general merchandise stores.

Source: Malcolm Knapp Inc., New York

Drug stores, on the other hand, give more space to what many buyers call "convenience" groceries, those traditional items that people can use to help prepare "a meal in an instant."

Many buyers say that after years of experimenting with groceries, they are winnowing out the winners from the "dogs."

In all channels of nonfood distribution, drug, discount and warehouse clubs, buyers say they prefer to stock high consumption items like candies, snacks, juices and soft drinks, as well as convenience items like Vienna sausages, olives, cereals, tuna, packaged side dishes like Rice-A-Roni, or canned meals like Chef Boy Ar Dee spaghettis and raviolis, etc.

In the discount industry, K mart and Wal-Mart are still the most aggressive merchandisers of groceries, both everyday and in their ads. Zayre's has cut back on packaged groceries this year, but the chain is still strong on their traditional grocery categories, such as candies, snacks and household cleaners.

Target is also still strong with the candy, snack, beverage and cleaner categories and Venture is continuing to build its base of traditional candy, snack, beverage and cleaner sales as well as to promote packaged groceries and pet foods.

A K mart source says foods are starting to find their "natural niche" in mass merchandise stores. He says they fill a need for drawing customers into a store on a regular basis, plus they can be profitable when they're bought on deal and carried for as long as supplies last.

"When we advertise a food item in our circular," he said, "it's for a seven-day sale, and we'll take a very competitive price to build traffic.

"But we may decide to do two ads on that item. One at the begin-

Grocery Sales Trends In Drug Stores
(retail sales millions)

Category segment	1982	1985	1986	1987	1988	1989
Packaged Groceries (excludes snacks)	$1,244	$1,708	$1,859	$2,019	$2,181	$2,354
Packaged Alcohol	1,186	1,627	1,761	1,915	2,078	2,243
Paper Goods	492	861	981	1,176	1,360	1,524
Soaps/Household cleaners	254	335	362	392	430	467
Pet Foods	32	53	59	67	85	100
Total Grocery Sales	3,208	4,584	5,022	5,568	6,134	6,688

Source: Malcolm Knapp Inc., New York

Buyers describe groceries as an "opportunistic" category, drawing more customers into the stores & capturing sales.

Grocery Sales Trends In NonFood Stores
(retail sales millions for drug, discount & warehouse clubs)

	1982	1985	1986	1987	1988	1989
Total Grocery Sales	$7,215	$11,302	$13,678	$16,074	$18,262	$20,655
% change	6%	n.a.	21%	18%	14%	13%

Source: Malcolm Knapp Inc., New York

ning of the deal period when we're looking to build traffic, and then an ad at the end of the period, when we want to sell through whatever quantity we have left.

"In between, we take a slightly higher mark-up and even though, we still offer a very good price, we can make a good profit for the period between the two ads."

In the chain drug industry, retailers like Peter Agostino at Eckerd, Jim Muir at Dunaway, Andy Horn at Harco, Clarance Archer at Dot and Paul Desjardins at Welby, all report their sales of promotional groceries are growing, usually at double digit rates and on some items, like a Gatorade, which has had what buyers and brokers call "a phenomenal year," up 50% or better.

"There is strong growth in grocery," says Agostino, the senior buyer of convenience foods for Eckerd Drug, "but it's there for the right items. You can't just put in anything."

"Our promotional grocery sales are growing," says Clarance Archer, VP of Wal-Mart's Dot Drug chain, "but that's because we're carrying the things that people use everyday: cereals, peanut butter, juices, canned meats, tomatoe sauces, spaghetti's, applesauce. These are all good convenience items that bring people back in."

"We're buying more promotional groceries," says Jim Muir at Dunaway in Georgia, "but it's also because I feel more confident about the category. I'm able to weed out the slow movers and I know what works for us."

"Groceries are doing real well for us," says Andy Horn at Harco. "We buy on deal as much as possible, and we try to get high consumption items: peanut butter, bar b q sauce, ketsup, things like that."

"We cut back on our convenience assortment," says Paul Desjardins at Welby in Maine, "but we did it to improve turns. Our sales are still going up because we're promoting groceries more and we've cut out all the dead items."

As far as most buyers are able to say right now, the future for groceries in nonfood stores is still quite bright.

As Andy Horn puts it: "Food will have to be more important to the nonfood chain. As the grocery, drug and discount chains start to look more and more alike, we're all going to be trying to draw traffic from each other. The grocery chains moved first by putting in pharmacy and hba to draw traffic from us. Now it's just natural for us to put in groceries to try to draw traffic from them."

"Having these products in our stores tends to enhance our convenience image with our customers," says Peter Agostino at Eckerd. "And we find we don't have to have a large assortment. If we carry the right brands in the right categories, we do well, and our stores benefit from the added traffic."

Grocery's Share of Discount Store Sales

Segment	1977		1982	
	All stores	Stores with grocery products	All stores	Stores with grocery products
Packaged Groceries	3.4%	4.2%	2.6%	3.7%
Packaged Alcohol	0.2%	2.1%	0.4%	2.2%

Data on paper goods, soaps/household cleaners and pet foods is not available.
Source: Malcolm Knapp Inc. & Census of Retail Trade 1977 and 1982 Merchandise Line Sales